DeMarche Dashboard

Data and Commentary for Periods Ended 1/31/2019

Global Overview

- **Markets** – Markets bounced back to begin 2019 as most equity and fixed income indices produced positive returns for investors. Equity markets shook off some signs of weaker economic data out of the China, Europe, and the U.S. as signs of a trade resolution boosted returns in the two largest economies. Commodities rebounded to begin 2019 as precious metals prices broadly rose and oil prices stabilized in the low $50 range. REITs were among the best performing assets available to investors, wiping away losses from December to start the year up over 10%. Treasury yields declined and non-investment grade bond inflows increased, providing high yield credit investors with particularly strong returns in the month. The 2-to-10 year Treasury spread remained stable throughout the month.

- **Developed markets** – Positive performance in both U.S. and non-U.S. developed markets were led by stocks on the smaller end of the market capitalization spectrum, as stocks with strong fundamentals and less political risk were favored by investors. Although the equity gains didn't completely wipe out losses from the end of 2018, it was the strongest January for U.S. equity markets since 1987. That being said, economic data pointed to slowing GDP growth and weakening consumer sentiment in the largest developed economies. Bond investors were rewarded in January as the World Global Bond Index returned nearly 2%.

- **Emerging Markets** – Emerging market equities continued to perform well into 2019 with China and Brazil leading the way. The MSCI Emerging Markets Index has returned over 10% in the latest three-month period while the rest of the world is still recovering from a dreadful fourth quarter of 2018. Stabilizing local currencies and government stimulus can be looked at as possible sources of strength. Local currency emerging markets debt had a very strong month for investors, returning over 3.0%, as sovereign yield spreads narrowed.

U.S. Economy and Markets

- The S&P 500 Index began 2019 with an 8.0% return, nearly wiping away losses from the month prior. Once again, large cap growth stocks outperformed large cap value stocks, as the Russell 1000 Growth Index finished January up 9.0% while the Russell 1000 Value Index finished up 7.8%. More optimistic language from the government regarding trade negotiations with China helped boost multi-national companies.
    - All 11 S&P 500 sectors posted positive results in January with industrials (+11.4%), energy (+11.1%), and REITs (+10.8%) providing the largest gains. Oil price stability positively influenced the energy sector after months of price volatility hampered companies reliant on commodity prices such as oil and natural gas. Health care and utilities were the only sectors that did not return at least 5% during the month.
- Small cap securities fared even better than their large cap counterparts during the month, as the Russell 2000 Index returned 11.2%. There was less of a dispersion between growth and value moving lower in the market cap spectrum, as the Russell 2000 Growth Index posted results of 11.6% while Russell 2000 Value returned 10.9%. Both SMID cap and mid cap stocks performed well during the same time period, returning 11.5% and 10.8%, respectively.
    - Each of the small cap sectors were positive in the month, with energy (+17.0%), technology (+13.9%), and health care (+11.6%) leading the way. Much of the gains seen in health care can be attributed to biotechnology stocks, which were collectively up 12.5% in the month. This differs from large cap health care securities, as biotechnology makes up less of the sector distribution.

PARTNER

- Certain positions on the yield curve remained inverted after the close of January, though longer dated treasury bonds saw spreads widen minimally as shorter dated offerings tightened. The 10-year U.S. Treasury yield stayed even around 2.7% throughout the month. The Bloomberg Barclays Aggregate Index finished up 1.1% and the Bloomberg Barclays Corporate Bond Index finished up 2.4% in January as a result of credit spreads tightening over the course of the month. The BofA Merrill Lynch High Yield Index gained 4.6% as high yield corporate spreads, particularly in the energy and industrials sectors, tightened significantly in January. Investment grade corporate spreads stayed relatively stable over the same time period. Other major 'Plus' sectors along with high yield, such as bank loans and emerging market debt, posted positive returns during the month.

- U.S. payrolls grew by 304,000 in January, beating expectations of 165,000. Unemployment rose to 4% and wage growth remained steady above 3% year-over-year. The December jobs figure was revised downward significantly from 312,000 to 222,000. Another strong labor report to begin 2019 will give Fed Chair Jerome Powell more to think about, as continued strength in the labor market may raise expectations of a rate rise in the first half of 2019. Conversely, falling consumer sentiment, weak homebuilding data, and a slowdown in discretionary spending are a few leading indicators that point to the Fed holding rates stable.

International Markets

- The MSCI EAFE Index (USD) started off 2019 with its first positive month since September, gaining 6.6% in January. Despite the lack of any progress on a Brexit deal, a healthy U.K. labor market and stable monetary policy pushed stocks up 7.1% in the month. Japan, Germany, and Switzerland all provided returns over 6% despite economic data suggesting corporations were being negatively impacted by trade tensions. Current valuations in developed international markets are trending towards their 5-year lows. International developed small cap stocks grew 8.1% in January as smaller companies proved to be more isolated from political factors.

- The International Monetary Fund (IMF) revised global GDP growth downward for the second straight meeting, citing trade tensions, the introduction of tougher automobile fuel emission standards in Germany, and financial risks in Italy. When the IMF reduced global growth prospects in October 2018, the group focused on slowing growth expectations in the Eurozone, which was reaffirmed in the latest statement by a further drop in expected GDP growth in in 2019 from 1.9% to 1.6%. The report also cited risks that China undershooting growth expectations moving forward would have a broad impact on both developed and emerging market countries.

- The MSCI Emerging Markets Index gained back 8.8% in January. The Emerging Market Index has now returned 10.2% in the latest three month period, better than most other broad indices throughout the world. The MSCI China Index returned 11.1% in January as trade talks with the U.S. appeared to be progressing. The next largest country weight in the Index, South Korea, provided a return of 10.3% in the same time period. Brazil, one of the top performing countries in the Index during 2018, continued its strength into 2019 by returning 17.8% in January. Brazilian equity markets have performed well after President Jair Bolsonaro was elected in October 2018. India (-1.9%) and Taiwan (+1.7%) were among the worst performing emerging market countries during the month.

PARTNER

Looking Ahead

- As of the close of January, just over 40% of S&P 500 companies had reported earnings with the remainder reporting in February. Despite trade tariffs, increased intra-day volatility, and other non-fundamental market drivers, strong corporate earnings have comforted long-term investors, which has led to robust equity markets since the Great Financial Crisis. As more earnings reports are released, investors will be watching for any sign that corporations are feeling pressure from the tariff situation or are starting to make changes to their growth estimates. Apple made headlines in January when the company reduced their top-line forecasts into 2019, citing unforeseen weakness in Chinese sales. If similar language is heard from other multi-national companies, investors may start to pay more attention to leading economic indicators suggesting a slowdown in the U.S. economy, such as an inversion of the yield curve and weak homebuilding data. That being said, the earnings reports (for the fourth quarter 2018) have largely been positive, particularly for smaller companies, as U.S. markets are still enjoying strong business investment and consumer spending.

- As China started to show the first real signs of stalling growth amid the trade impasse with the U.S., the Chinese government conveyed plans to introduce additional cuts to taxes and fees while maintaining a supportive monetary policy. In statements made at the Economic Work Conference in Beijing during December 2018, policymakers shared that they will be focused on keeping GDP growth positive by boosting consumer demand and business investment. In addition to the personal income tax cut introduced in 2018, additional cuts are presumed to follow during 2019, along with a potential reduction in the required reserve ratio, boosting bank lending books. Government support for the private sector appears to be strong as China faces downward pressures from the external environment. Investors will be focused on seeing if the announced tax cuts and continued easy monetary policy will have a positive impact on short-term growth and market sentiment.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates *per US $*		Inflation[2]
	Latest	2019[1]	2020[1]		*Sovereign Bonds, 10 Year*	Current	1 Year Ago	*(Most recently available)*
United States	3.00	2.72	2.13	4.00	2.63	-	-	2.18
China	6.40	6.30	6.02	3.80	3.15	6.74	6.32	2.11
Japan	0.00	0.96	0.68	2.50	-0.01	109.60	108.70	0.89
United Kingdom	1.50	1.41	1.14	4.00	1.31	1.32	1.43	2.10
Euro Area	1.60	1.60	1.50	7.90	0.25	1.14	1.25	0.97
Germany	1.20	1.61	1.37	3.30	0.19	1.14	1.25	2.27
France	0.90	1.60	1.47	8.90	0.76	1.14	1.25	1.59
Italy	0.70	0.93	0.94	10.50	2.98	1.14	1.25	1.48
Canada	2.10	2.19	1.89	5.60	2.06	1.33	1.23	1.09
India	7.10	7.25	7.36	7.40	6.75	70.60	63.65	4.86
Mexico	1.80	2.53	2.80	3.60	9.11	18.93	18.49	4.83
Brazil	1.30	2.13	2.41	11.60	6.40	3.77	3.15	4.05

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, The Wall Street Journal, OECD, The World Bank, and *The Economist*

1. Euro Area data from The World Bank, all other data from OECD

2. In terms of CPI All Items

OBJECTIVE

Capital Markets Overview

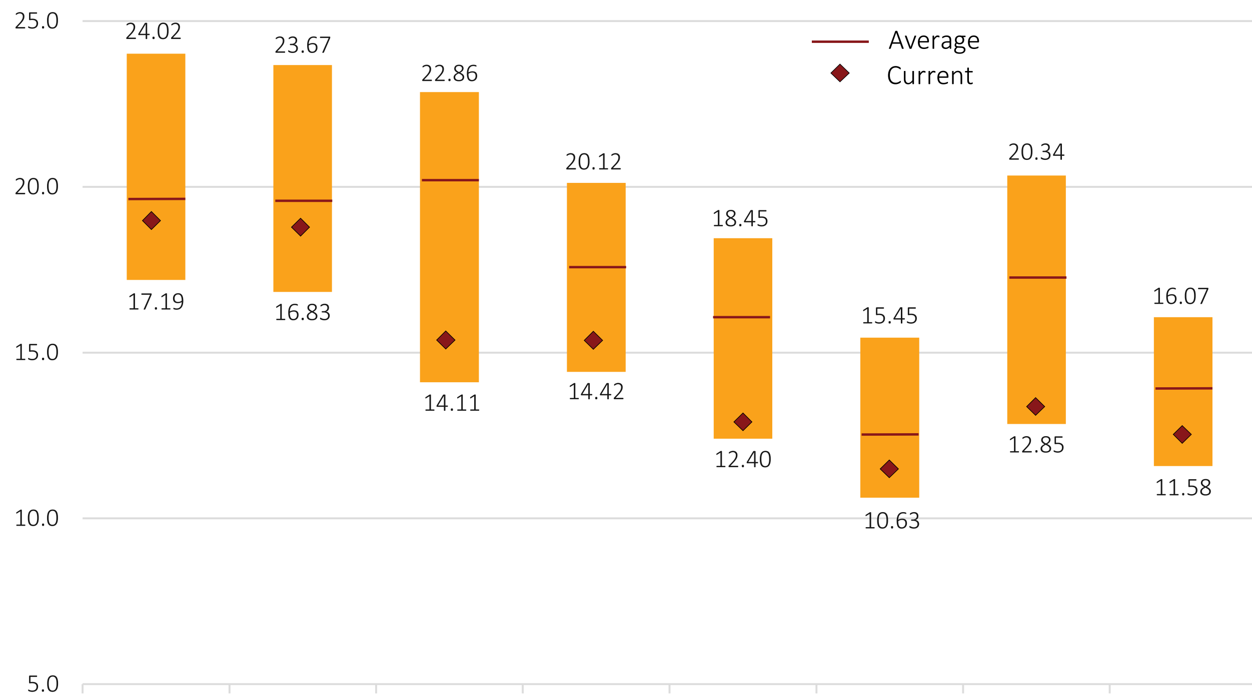
		TRAILING			ANNUALIZED			
		1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr
Broad Market	MSCI World NR USD	7.78	0.72	7.78	(6.54)	11.26	6.94	11.51
	BBgBarc US Agg Bond TR USD	1.06	3.53	1.06	2.25	1.95	2.44	3.68
	Russell 3000 TR USD	8.58	0.45	8.58	(2.26)	14.19	10.41	15.12
	DJ Industrial Average TR USD	7.29	0.14	7.29	(2.19)	17.77	12.44	15.00
	NASDAQ Composite PR USD	9.74	(0.33)	9.74	(1.75)	16.43	12.15	17.30
	MSCI EAFE NR USD	6.57	1.27	6.57	(12.51)	7.74	2.66	8.11
	FTSE Treasury Bill 3 Mon USD	0.20	0.59	0.20	1.96	1.05	0.64	0.37
	Bloomberg Commodity TR USD	5.45	(2.37)	5.45	(8.23)	2.66	(7.88)	(2.74)
Domestic Equities	S&P 500 TR USD	8.01	0.26	8.01	(2.31)	14.02	10.96	15.00
	S&P MidCap 400 TR	10.46	1.02	10.46	(4.53)	13.49	8.63	15.69
	S&P SmallCap 600 TR USD	10.64	(1.26)	10.64	(1.25)	15.64	9.37	16.33
	Russell 1000 TR USD	8.38	0.51	8.38	(2.17)	14.14	10.68	15.17
	Russell 1000 Growth TR USD	8.99	0.68	8.99	0.24	16.60	12.97	16.86
	Russell 1000 Value TR USD	7.78	0.34	7.78	(4.81)	11.62	8.33	13.39
	Russell Mid Cap TR USD	10.79	2.25	10.79	(2.90)	13.29	8.89	16.09
	Russell Mid Cap Growth TR USD	11.49	3.95	11.49	0.51	15.60	10.26	16.92
	Russell Mid Cap Value TR USD	10.29	1.08	10.29	(5.43)	11.67	7.90	15.39
	Russell 2000 TR USD	11.25	(0.41)	11.25	(3.52)	14.71	7.26	14.52
	Russell 2000 Growth TR USD	11.55	0.06	11.55	(2.63)	15.55	7.83	15.68
	Russell 2000 Value TR USD	10.94	(0.90)	10.94	(4.51)	13.76	6.62	13.28
International Equities	MSCI ACWI Ex USA NR USD	7.56	3.66	7.56	(12.58)	9.59	3.11	8.35
	MSCI EAFE NR USD	6.57	1.27	6.57	(12.51)	7.74	2.66	8.11
	MSCI EAFE Growth NR USD	6.45	1.62	6.45	(11.32)	7.38	3.84	8.71
	MSCI EAFE Value NR USD	6.69	0.91	6.69	(13.73)	8.08	1.42	7.45
	MSCI Japan NR USD	6.10	(0.60)	6.10	(11.62)	8.53	5.12	6.71
	MSCI AC Asia Ex Japan NR USD	7.31	9.95	7.31	(14.57)	14.13	6.59	11.49
	MSCI Europe NR USD	6.59	0.72	6.59	(13.91)	6.69	1.47	8.09
	MSCI United Kingdom NR USD	7.09	1.31	7.09	(10.79)	6.12	0.52	8.26
	MSCI EAFE Small Cap NR USD	8.06	0.38	8.06	(15.59)	9.39	4.99	12.11
	MSCI EM NR USD	8.77	10.24	8.77	(14.24)	14.89	4.77	9.66
Fixed Income	BBgBarc US Govt/Credit TR USD	1.18	3.55	1.18	1.93	2.11	2.47	3.74
	BBgBarc US Govt/Credit Interm TR USD	0.87	2.68	0.87	2.66	1.58	1.85	3.03
	BBgBarc US Govt/Credit Long TR USD	2.24	6.61	2.24	(0.50)	4.07	5.00	6.79
	ICE BofAML US High Yield TR USD	4.59	1.37	4.59	1.57	9.46	4.61	10.91
	Credit Suisse HY USD	4.46	1.16	4.46	1.38	9.49	4.40	10.48
	S&P/LSTA Leveraged Loan TR	2.55	(0.96)	2.55	2.02	5.94	3.44	8.07
	FTSE WGBI NonUSD USD	1.96	4.82	1.96	(3.01)	3.64	0.40	1.95
	BBgBarc Gbl Agg Ex USD TR USD	1.86	4.24	1.86	(3.26)	3.62	0.20	2.43
REITs	FTSE Nareit All REITs TR	11.42	7.43	11.42	10.42	9.75	9.93	15.70
	Wilshire US REIT TR USD	11.46	6.93	11.46	10.29	7.26	9.40	15.70

USD - US dollar priced index **TR** - Total Return **PR** - Price Return **LCL** - Local Currency Priced Index **NR** - Return includes reinvested net dividends

S&P 500 Price Level

Source: Standard & Poors

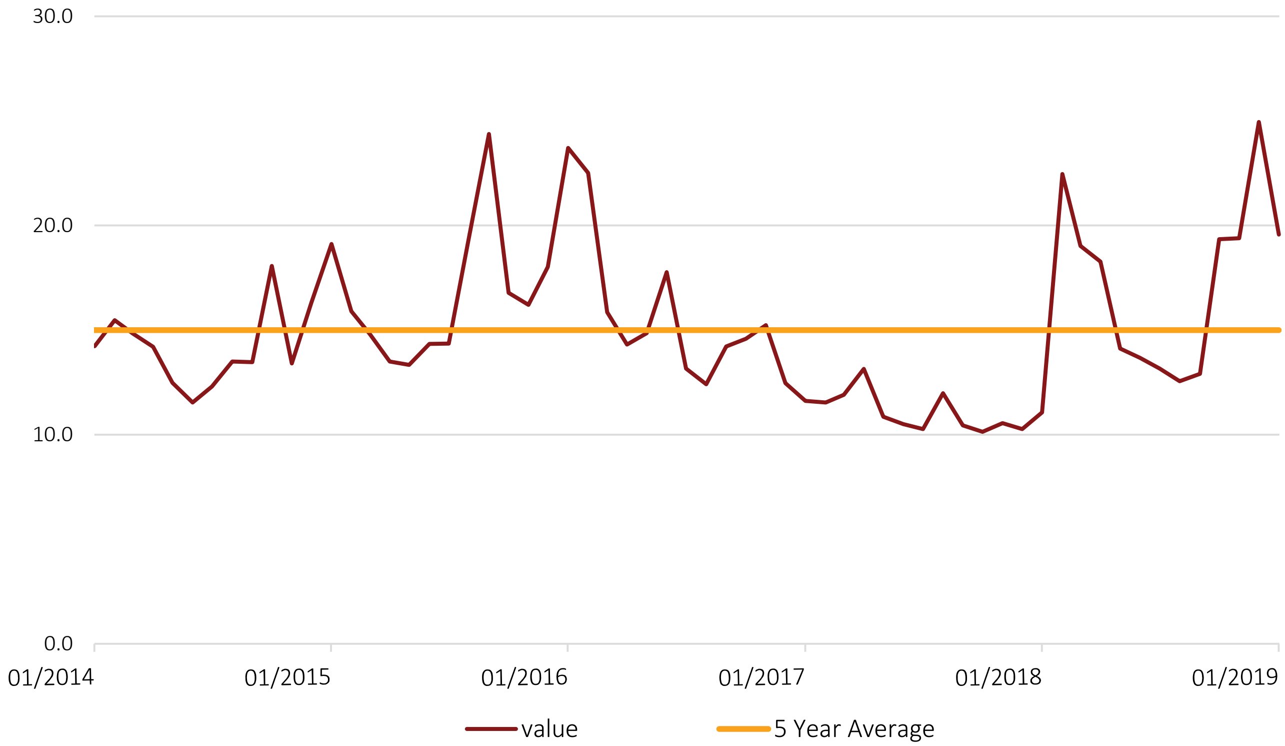
Current P/E vs. Trailing 5-Year High, Low, Average



	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Date	Jan-18	Jan-18	Nov-17	Jan-18	May-17	Jan-18	Mar-17	Jul-17
Low Date	Dec-18	Dec-18	Dec-18	Dec-18	Dec-18	Oct-15	Dec-18	Dec-18

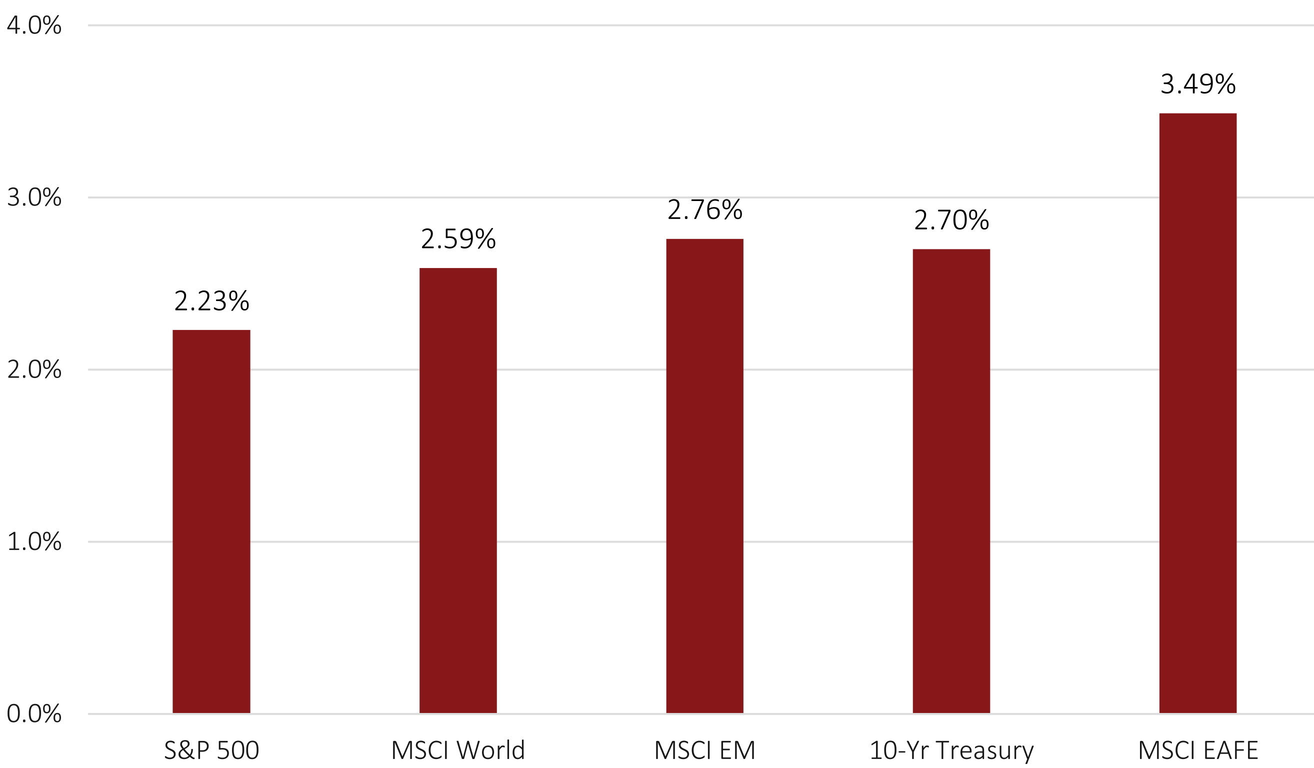
Source: Standard & Poors, FTSE/Russell, MSCI

CBOE Volatility Index: VIX



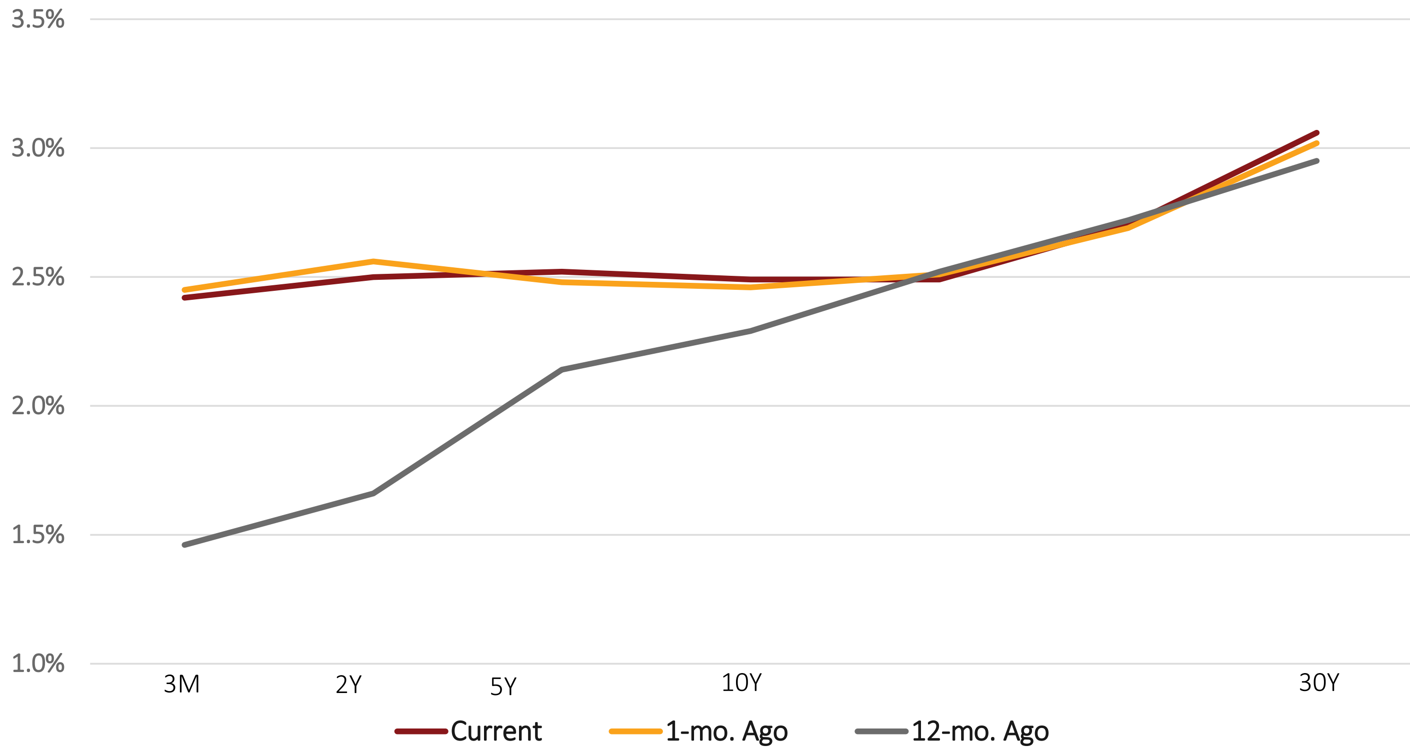
Source: CBOE Global Markets, Inc.

Current Yields



Source: Federal Reserve Bank of St. Louis, Standard & Poors, MSCI

U.S Treasury Yield Curves



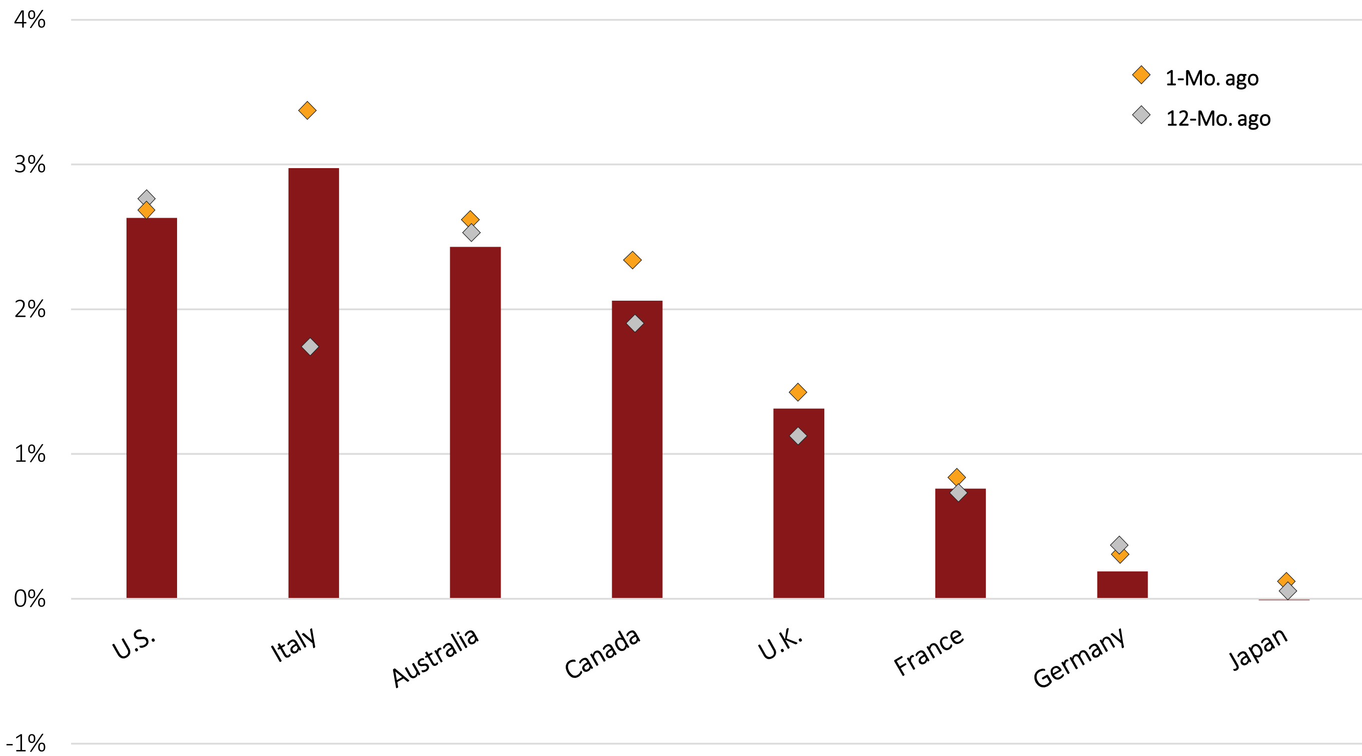
Source: Federal Reserve Bank of St. Louis

U.S. Treasury Yields & Performance

Security	Yield (%)		
	Current	1-Mo. Ago	12-Mo.Ago
3-mo. Treasury	2.42	2.45	1.46
6-mo. Treasury	2.50	2.56	1.66
2-yr. Treasury	2.52	2.48	2.14
3-yr. Treasury	2.49	2.46	2.29
5-yr. Treasury	2.49	2.51	2.52
10-yr. Treasury	2.70	2.69	2.72
30-yr. Treasury	3.06	3.02	2.95

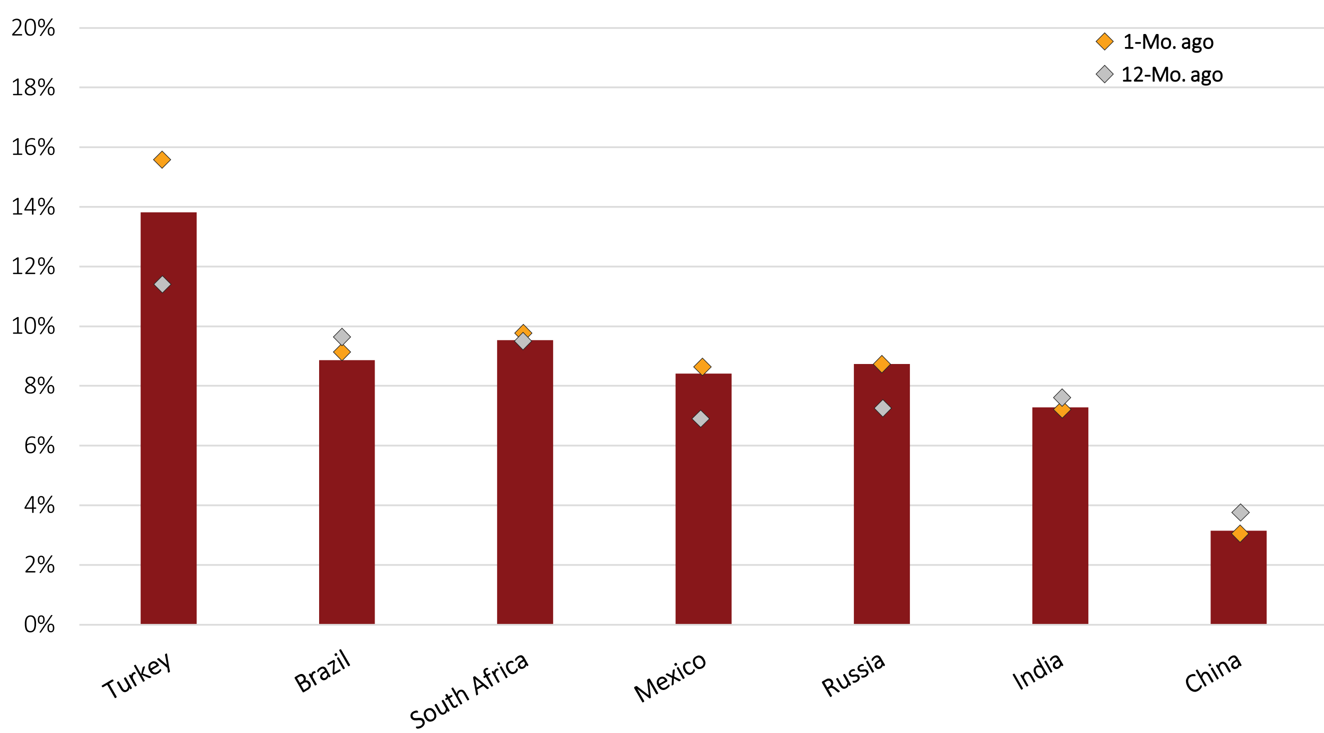
Source: Federal Reserve Bank of St. Louis

Developed Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis, Bloomberg

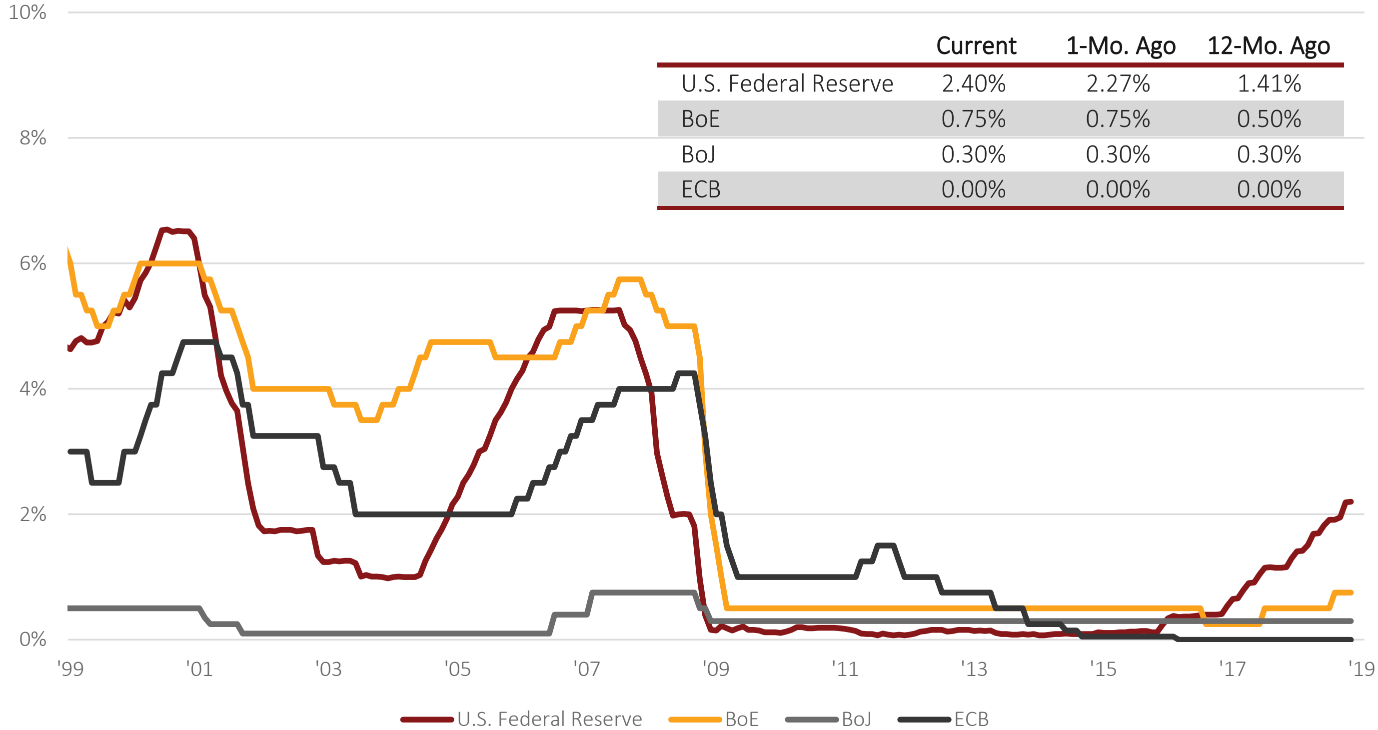
Emerging Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis, Bloomberg, Wall Street Journal

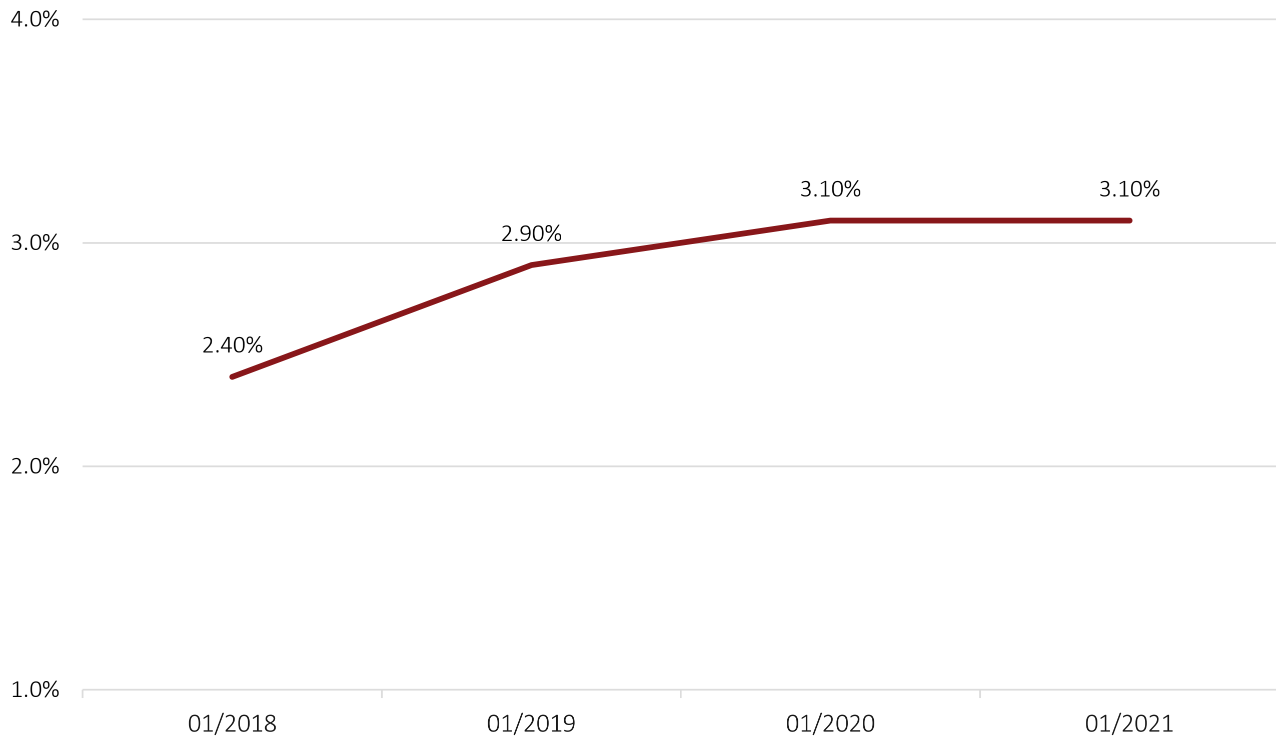
Central Bank Policy Rates

	Current	1-Mo. Ago	12-Mo. Ago
U.S. Federal Reserve	2.40%	2.27%	1.41%
BoE	0.75%	0.75%	0.50%
BoJ	0.30%	0.30%	0.30%
ECB	0.00%	0.00%	0.00%



Source: Federal Reserve Bank, Bank of England, European Central Bank

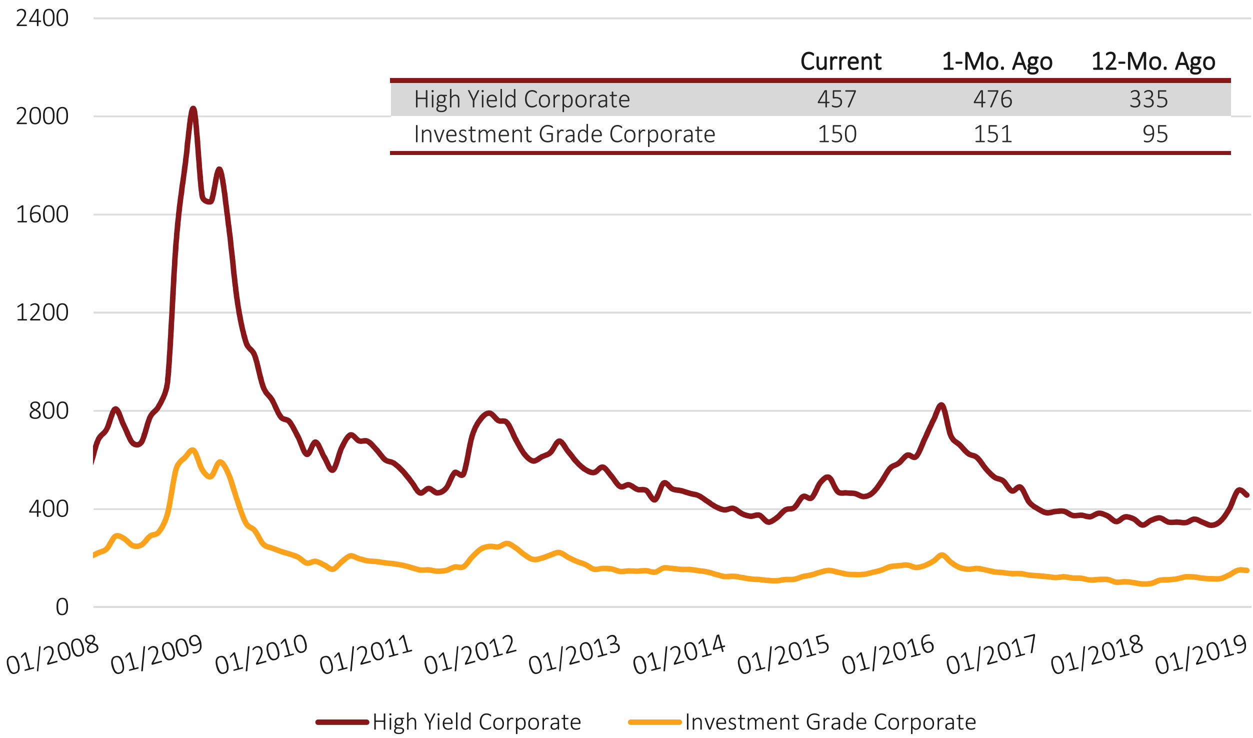
Summary of Economic Projections of Federal Funds Rate



Source: Federal Reserve Bank of St. Louis and U.S. Federal Open Market Committee (FOMC).
Represents the median value of the range forecast of the federal funds rate established by the FOMC.

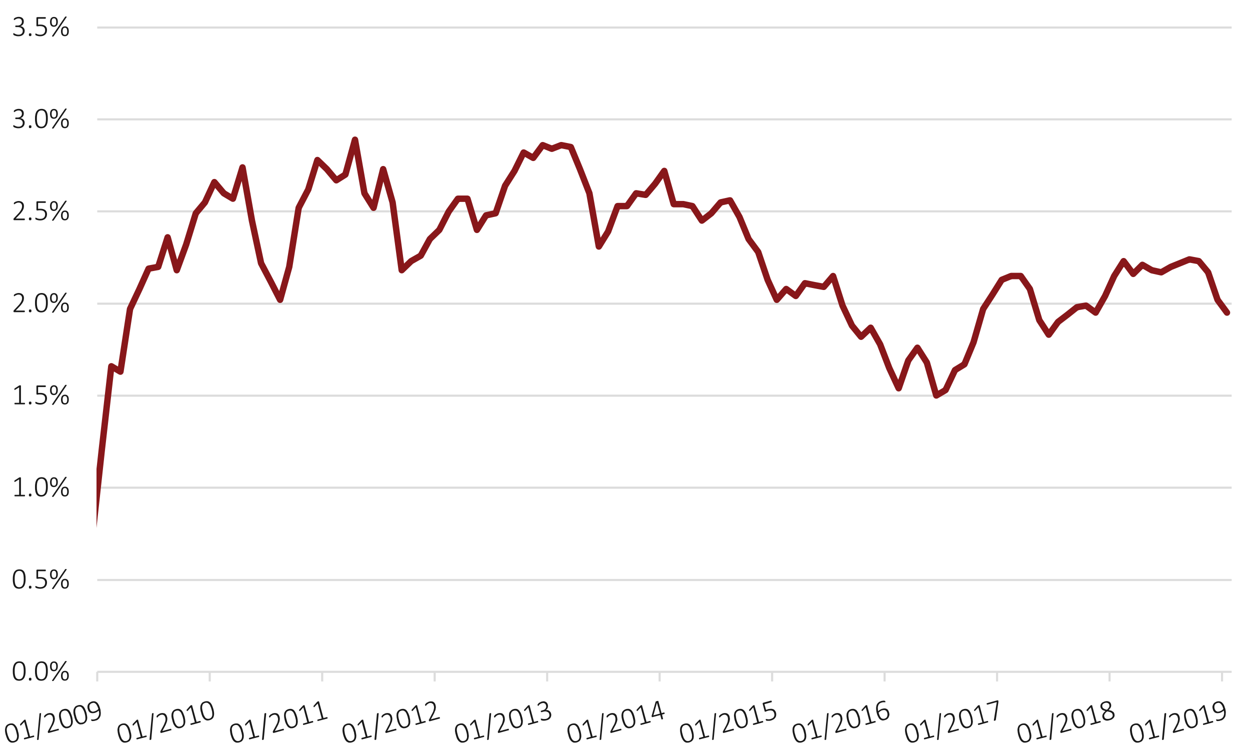
Corporate Bond Average Spread (bps)

	Current	1-Mo. Ago	12-Mo. Ago
High Yield Corporate	457	476	335
Investment Grade Corporate	150	151	95



Source: Bank of America

5-Year Forward Inflation Expection Rate



Source: Federal Reserve Bank of St. Louis. Measure of expected inflation, on average, over the next five year period.